



City Council Agenda Item Staff Report

CITY OF SAN BRUNO

DATE: July 11, 2006

TO: Honorable Mayor and Members of the City Council

FROM: Connie Jackson, City Manager
Jim O'Leary, Finance Director

SUBJECT: Review Proposed Water and Wastewater Rate Increases and Proposed Proposition 218 Compliant Process for Adjusting Water and Wastewater Rates

BACKGROUND:

Since 1996, San Bruno has invested millions of dollars into making improving, upgrading, and replacing the water and wastewater systems in the City. Significant progress has been made in addressing many critical utility infrastructure needs, with the projects prioritized by the Utility Master Plans adopted in 2000. The Master Plans and the Water and Wastewater rate structures have been built upon the foundation of the Utility Improvement Plan originally adopted by the City Council in 1996.

The City Council last adjusted water and wastewater rates on June 22, 2004 by the adoption of Ordinance Nos. 1695 and 1696. These rates were based upon a rate evaluation performed by Brown & Caldwell, which in turn relied upon projected expenditures for operations and maintenance and the master-planned work programs intended to address repairs and improvements to the City's utility infrastructure. The rates have remained unchanged since that time.

The City again contracted with Brown & Caldwell for an update of the utility rate study, and the staff is presenting a recommendation for a three-year adjustment of the utility rates. The proposed rates include a significant proposed multi-year, multi-million dollar investment in the improvement and replacement of the City's utility infrastructure. Specific projects to be prioritized with this increased capital funding will be addressed in conjunction with consideration of the City's five-year Capital Improvement Program.

DISCUSSION:

The rate structure adopted in 2004 resulted in the following rates for the average single-family residential customer:

Year	Wastewater		Water	
	Bimonthly Sewer Bill*	Increase from Prior Yr.	Bimonthly Water Bill*	Increase from Prior Yr.
2004-05	\$68.42	9.5%	\$65.30	7.4%
2005-06	\$68.42	0.0%	\$65.30	0.0%

Note: *Average bimonthly bill for a single-family residential customer with 18 units of water use and 16 units of winter water use for computation of wastewater bill.

The 2004 rate study projected further annual rate increases for the period 2005-09 of 8.7%, 9.1%, 8.5%, and 4.4% for Wastewater, and 6.0%, 5.8%, 5.5%, and 4.9% for Water for the median residential utility customer.

These previously projected rates will not support the operational and capital improvement costs of the utilities that the City Council is considering. First, rates were not adjusted in 2005-06 that now necessitates higher rates to generate needed revenue. Costs in both utilities have grown faster than anticipated due to increases in operating expenses.

Water Enterprise budget expenses are growing due to the increasing cost of self-insurance premiums and the significantly increasing cost of wholesale water purchases from the SFPUC. The SFPUC has notified San Bruno and the other BAWSCA agencies of a 19.6% increase in wholesale water rates that will become effective as of July 2006 (increasing from the current \$1.02 to \$1.22 per unit). The Wastewater Enterprise budget expenses are rising because of the increase in payments to South San Francisco for the cost of wastewater treatment at the plant and the capital costs of the capacity expansion projects of the jointly owned facilities that are not covered by the State Department of Water Resources loans.

Significantly expanded capital improvement program efforts to replace and rehabilitate aging utility infrastructure over the next 10 years have also been included in the rate structures that have been proposed. Over the three-year rate increase period, a total of \$15,111,300 in both Water and Wastewater Funds capital improvement projects are planned. Major Water Fund projects over this period include (projected cost in 2006 dollars):

- Tank Modifications/ Seismic Retrofit Program (\$950,000)
- Pump Station No. 5 (Maple Avenue) Replacement (\$1,500,000)
- Pump Station No 4 (College Drive) Replacement (\$1,800,000)
- Tank No. 11 (\$1,000,000 of \$2,000,000 total project)

Major Wastewater Fund projects over this period include:

- Rollingwood Relief Sewer Project (\$3,400,000)
- Olympic Pump Station Rehabilitation and Force Main (\$2,000,000)
- Wastewater Pipeline Improvement and Replacement Program (\$1,500,000)

Attachment 1 (Water Fund) and Attachment 2 (Wastewater Fund) show the average bimonthly residential bill amount projected for 2006-07 and future years. In addition, the attachments show the amount of annual and cumulative Capital Improvement Project revenue that will be raised by the proposed rates.

Based upon these factors, staff is recommending rates that would result in the following bi-monthly bills for the median single-family residential customer over the next three years:

<i>Year</i>	<i>Wastewater</i>		<i>Water</i>	
	<i>Bimonthly Sewer Bill*</i>	<i>Increase from Prior Yr.</i>	<i>Bimonthly Water Bill*</i>	<i>Increase from Prior Yr.</i>
2006-07	\$ 79.32	15.9%	\$70.56	8.1%
2007-08	\$ 91.30	15.1%	\$75.86	7.5%
2008-09	\$102.82	12.6%	\$82.10	8.2%

Attachment 3 (Water Fund) and Attachment 4 (Wastewater Fund) show the average bimonthly residential bill amounts for 2006-07 and future years and both the dollar increase in the bimonthly residential bills and the percent change through the rate study period ending in 2015-16.

The proposed water rates continue to include a special rate allows the City to recover the differential cost of water obtained from the North Coast County Water District through their metered turn out and pump station located at the Harry Tracy Treatment Plant on Crystal Springs Road. The cost of NCCWD water exceeds the wholesale cost of water purchased directly from the SFPUC. The water is then resold by the City and provided to the Crystal Springs Terrace Apartments. The recovery of this differential cost to the City is necessary to comply with the provisions of Proposition 218 passed by California voters in 1996. Under Proposition 218, utility customers can only be required to pay for their cost of service and related expenses. The general rates and service charges cannot be used to subsidize the cost of water service being provided to a specific group of ratepayers.

In conjunction with the General Fund deficit reduction program in 2004-05, the City Council established an in-lieu franchise fee for the Water Enterprise and the Wastewater Enterprise Fund at two percent of the gross annual receipts. In proposing the water rate increase for 2006-07, this fee is eliminated. The full and accurate cost of services provided each Fund by the General Fund operating departments is included in the Recommended Budget as developed and confirmed by the recently approved Cost Allocation Plan.

Attachment 5 (Water Fund) and Attachment 6 (Wastewater Fund) show the average bimonthly residential bill amounts and comparisons with nearby agencies and providers.

There is new case law concerning Proposition 218 and utility rates. Proposition 218 created restrictions on the imposition of property-related fees, and created new procedures and limitations for "property-related" fees — fees imposed "as an incident of property ownership" or "for a property-related service." Fees that are not property-related are not subject to these procedures and limitations. The procedures give the ratepayers the

opportunity to reject a new or increased fee, and limit the amount of fees to the cost of providing the service for which the fee is charged.

The City's rate structure for both Water and Wastewater is one that includes both a fixed basic charge and a consumption charge. Due to the fixed basic charge component, a legal opinion has deemed this form of rate structure to be subject to the provisions of Proposition 218. Although this is a similar rate structure to that which is being used by a number of other agencies, some are ignoring the Proposition 218 issue. Others, such as the City of Redwood City, are undertaking a Proposition 218 compliant property owner protest procedures.

The Proposition 218 compliant procedures for water and wastewater rates are fairly straightforward. Water and wastewater utility rates are excluded from the voter approval requirements included in Proposition 218 for the imposition of new taxes. In the case of utility fees, Proposition 218 only requires that property owners be notified of the proposed increase. Only if written protests are received from a majority of property owners would the proposed rate increase be disallowed. An initial draft for a Proposition 218 compliant noticing to property owners is attached. The following schedule is proposed for the City's implementation of Proposition 218 compliant process of new water and wastewater rate ordinances:

07/11/06:	City Council directs staff to include 45-day notice to property owners per Proposition 218 in rate adoption process
07/21/06:	Notices mailed / start 45-day period
09/04/06:	45-day protest period ends
09/12/06:	City Council holds public hearing, considers any protests, takes action to introduce new rate ordinances for 1 st reading
09/26/06:	City Council takes action to adopt new rate ordinances
10/27/06:	New rate increases become effective

The Water Resource and Wastewater Council Ad Hoc Committees have each reviewed and concurred with the proposed utility rate adjustments.

FISCAL IMPACT:

The proposed rate structures provide additional revenues to support both budgeted operations for FY 2006-07 and anticipated budget adjustments in the ensuing two years. These rates will also provide a significantly increased amount of new pay-as-you-go funding for capital projects.

The proposed rates are projected to generate annual billing revenues for FY 2006-07 of \$6,940,753 in water, an increase of 8.6% over actual estimated 2005-06 revenue, and \$7,005,517 in Wastewater, a 22.9% increase. These percentage increases in total revenue exceed the proposed 8.1% and 15.9% rate increases of the median average residential water and wastewater customer. This is primarily attributable to:

1. The water rates include a tiered rate structure to promote conservation. The larger water consumers are charged a higher rate for bi-monthly water consumption in excess

of 18 units due to the more costly imported water supplies that must be procured from the SFPUC to meet peak demand.

2. The wastewater rates charged to commercial and industrial property classifications are significantly higher than that charged to single-family properties due to the added treatment cost for chemical oxygen demand and suspended solids incurred at the treatment plant.

ALTERNATIVES:

1. Do not proceed with the process to adopt new rates at this time. The existing water and wastewater rates would continue in place until new rates are adopted. While this would give the Council additional time to evaluate the proposed capital improvement program component of the rate structure prior to any action, it would generate less revenue than is expected to be required for operating expenses. Service cuts in the proposed utility budgets could be required and future year rate adjustment requirements could be increased.
2. Provide policy direction to notice the setting of rates at lower levels than those that have been proposed. This alternative would also generate less revenue than required for delivery of the proposed Utility Operations and Capital Improvement Programs.

RECOMMENDATION:

Review proposed Water and Wastewater rate increases and proposed Proposition 218 compliant process for adjusting Water and Wastewater rates.

ATTACHMENTS:

1. Projection of CIP Funds Generated by Proposed Water Rates
2. Projection of CIP Funds Generated by Proposed Wastewater Rates
3. Projection of Future Avg. Single Family Residential (SFR) Bi-Monthly Water Bills
4. Projection of Future Avg. SFR Bi-Monthly Wastewater Bills
5. Comparison of Proposed Avg. SFR Water Billing Compared to Other Peninsula Agencies
6. Comparison of Proposed Avg. SFR Wastewater Billing Compared to Other Peninsula Agencies
7. Proposed Property Owner Notice

DATE PREPARED:

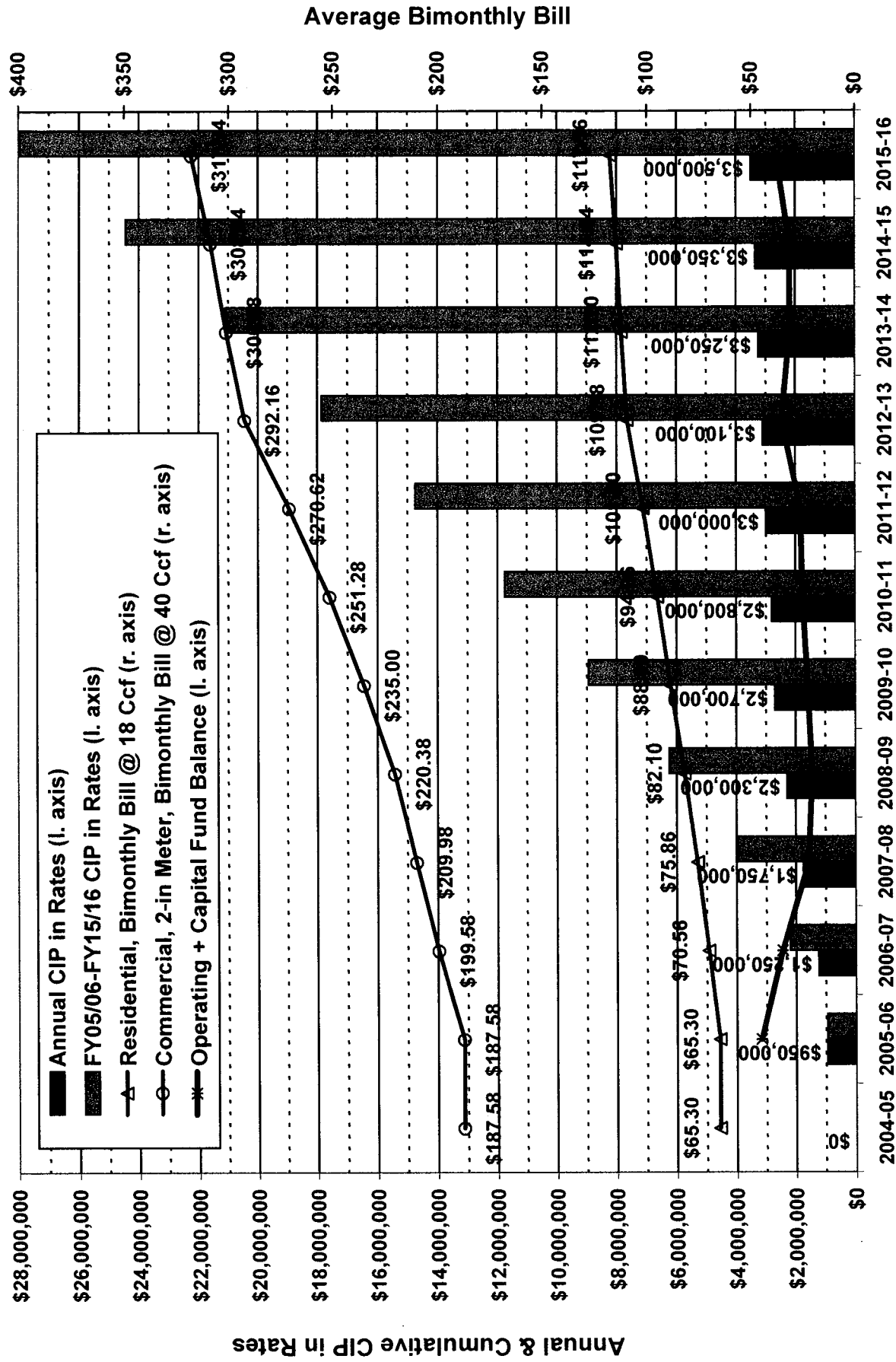
June 29, 2006

REVIEWED BY:

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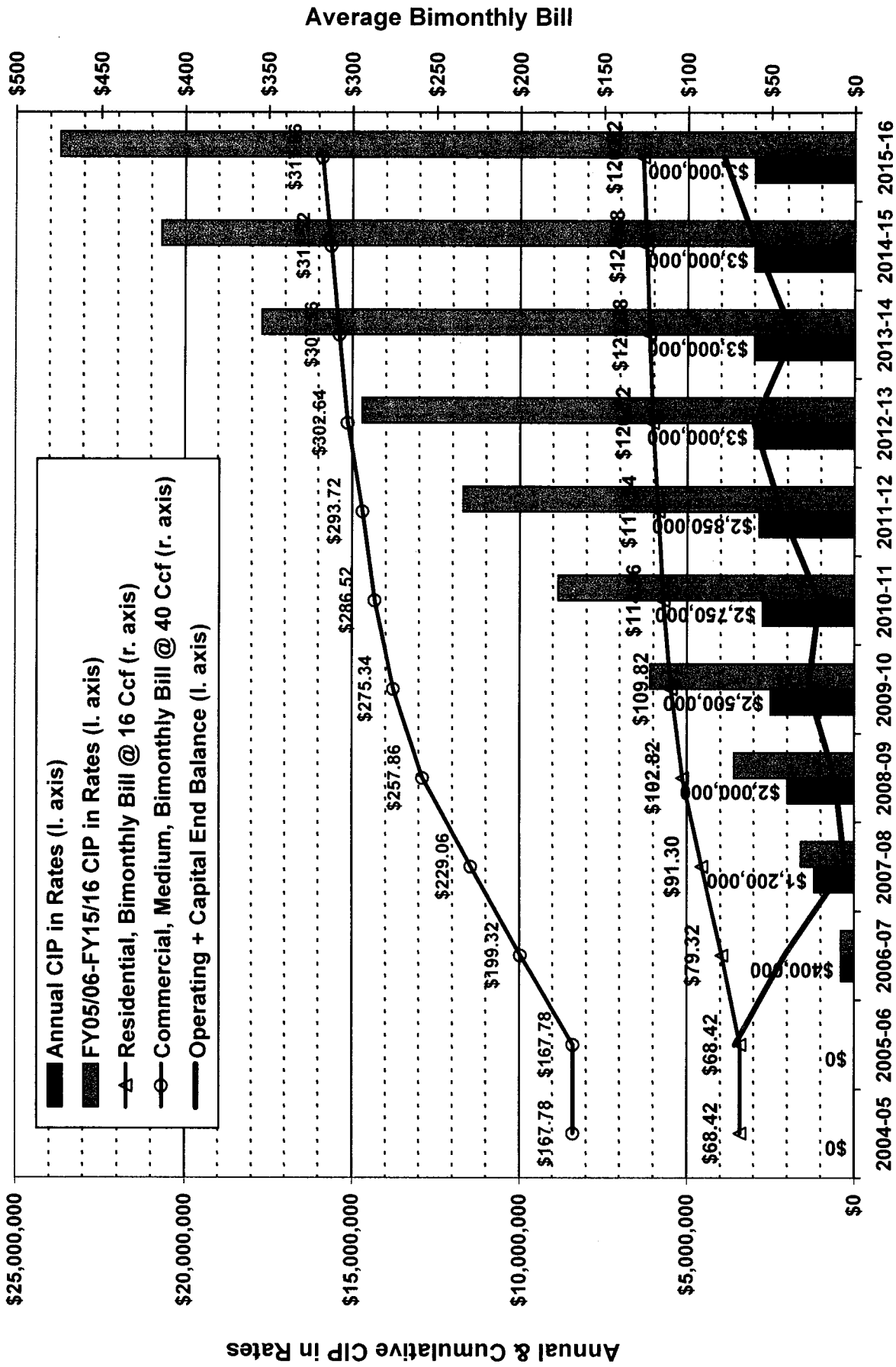
WATER

Annual and Cumulative CIP Funds Produced by Proposed Rates

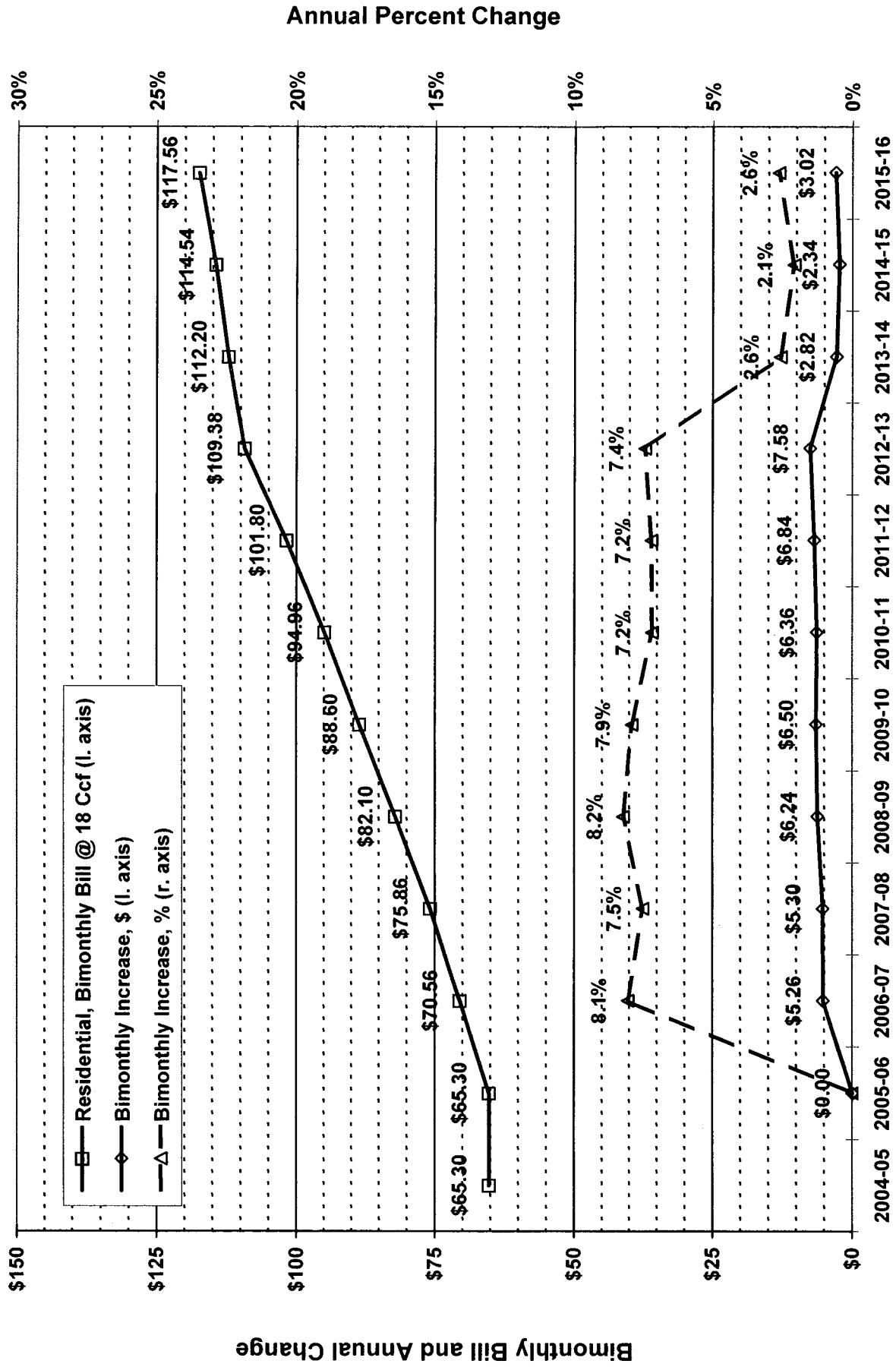


WASLEWATER

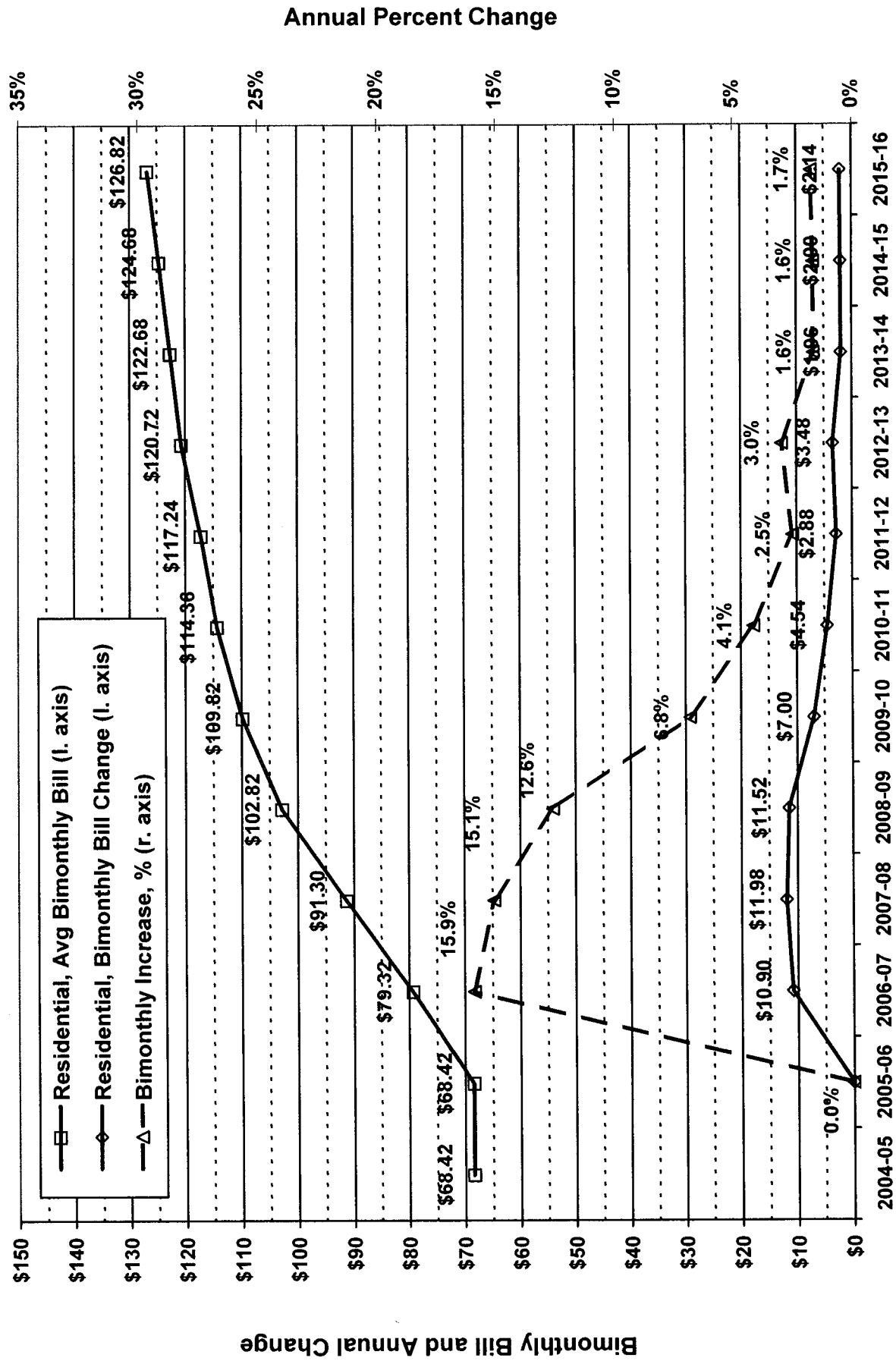
Annual and Cumulative CIP Funds Produced by Proposed Rates



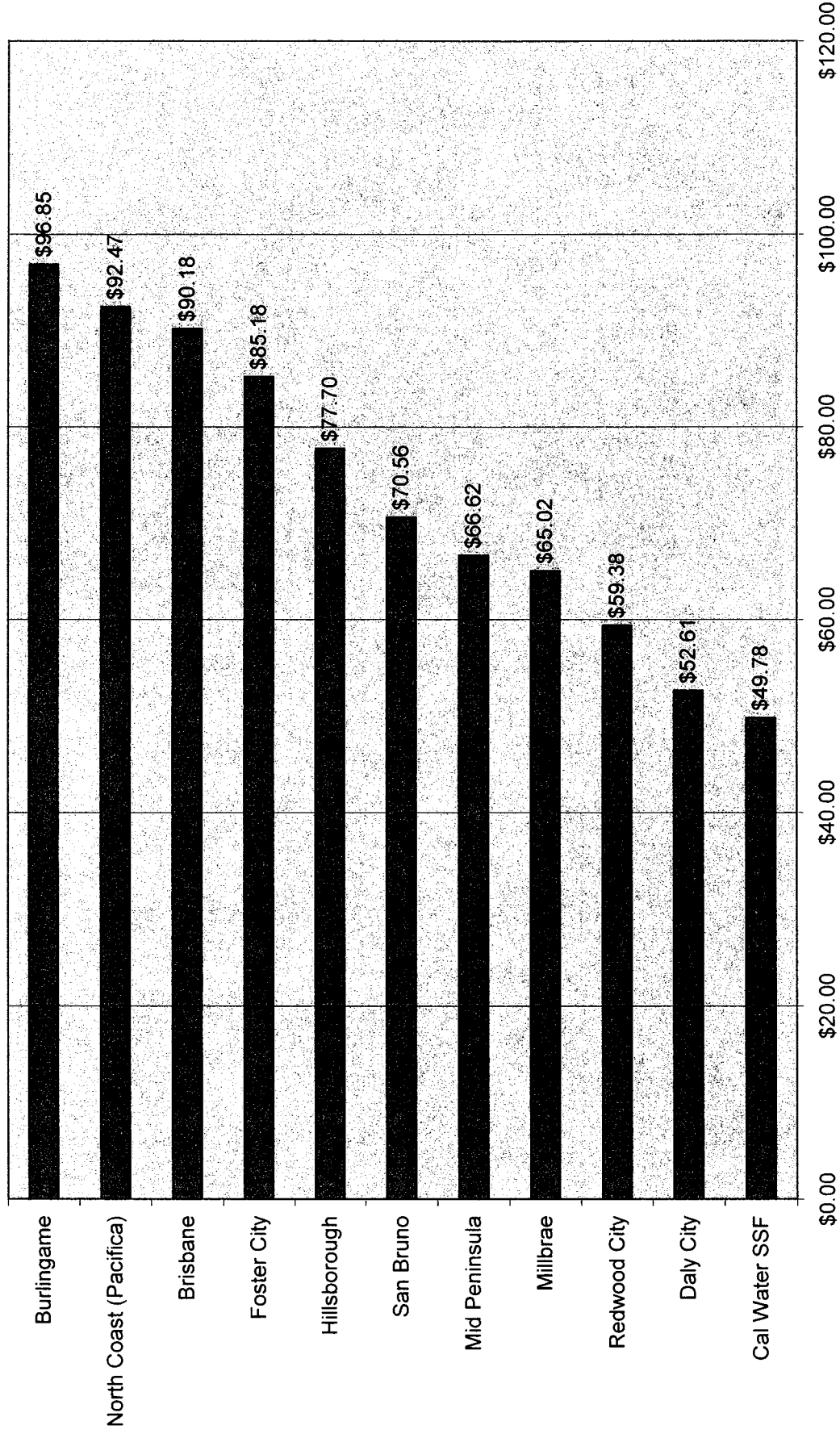
WATER Proposed Median Single Family Residential Bi-Monthly Rate Change



WASTE WATER Proposed Median Single Family Residential Bi-Monthly Rate Change



Average Residential Water Bill Cost Comparison
(Based on 18 units (or 225 gallons per day) average use, billed bi-monthly.)



Average Residential Sewer Bill Cost Comparison
(Based on 16 units (or 200 gallons per day) average indoor water use, billed bi-monthly.)

